



AFFORDABLE HOUSING REQUIREMENT AND INCENTIVES FREQUENTLY ASKED QUESTIONS

Department of Planning and Permitting

These frequently asked questions (FAQs) refer to the recently adopted Affordable Housing Requirement, Ordinance 18-10 (Bill 58 (2017)), and the Affordable Housing Incentives, Ordinance 18-01 (Bill 59 (2017)).

What is the Affordable Housing Requirement (AHR)?

The AHR is a mandate to ensure that for-sale and rental units are added to Oahu's affordable housing inventory for a minimum of five to 30 years. Development that triggers the AHR will provide the affordable units as part of their project.

Why does Honolulu need an AHR?

There is high demand for affordably priced dwelling units. The free market and existing affordable housing tools have not produced enough supply to meet the demand. The AHR will produce additional units. Without an AHR, we lose the opportunity to continue providing affordable housing if a portion of newly constructed housing does not have restrictions guaranteeing affordable prices for the next generation.

What does the City consider “affordable”?

For purposes of the AHR, “affordable” is defined differently, depending on whether the dwelling unit is for rent or sale. Affordable for-sale units must be targeted to households earning up to 120% of the area median income (AMI), with half of the affordable units targeted to households earning up to 100% of the AMI. Affordable rental units must be targeted to households earning up to 80% of the AMI.

When does the AHR apply?

The AHR applies to new for-sale residential development, including subdivisions, with at least 10 dwelling units or lots. Commercial development, including lodging units and timeshares, and rentals are exempt, unless converted to dwelling units (although rental projects are exempt, they can be built to satisfy the AHR). Accessory dwelling units (ADUs), micro-units, special needs housing, group living facilities, and developments already tailored to be affordable are also exempt. For example, ADUs and micro-units are limited in size and, therefore, the prices people are willing to pay will naturally be lower.

How is the AHR executed?

An affordable housing agreement must be accepted by the DPP, and a declaration of restrictive covenant must be executed and recorded, prior to issuance of a building permit or final approval on any land use permit. These documents designate the number and type of affordable units, income ranges, and required period of affordability, along with reporting requirements to ensure they remain affordable over time.

How many affordable units are required to satisfy the AHR?

There are various options available (used individually or combined) to satisfy the AHR, providing the developer flexibility in delivery. Additional affordable units are required for projects seeking bonus height and/or density through Interim Planned Development-Transit (IPD-T), Planned Development-Transit (PD-T), or Transit-Oriented Development (TOD) Special District permits. Additionally, more affordable for-sale (not rental) units are required if built off-site and outside of the rail transit station area where the project site is located, or outside of the same development plan area if the project site is not inside a rail transit station area. Fewer affordable for-sale units are required if they are designated to be affordable for longer periods of time. The required number of affordable units will be confirmed when submitting for permits. However, you can request a determination beforehand by writing to the Department of Planning and Permitting (DPP).

Why are there different requirements for IPD-T, PD-T, and TOD Special District projects?

The AHR is higher for these types of projects, which seek additional height and/or density, because new TOD zoning increases the development rights, and value, of those properties. These areas will also benefit from rail access and many neighborhood improvements or community benefits provided by these projects. A higher AHR essentially provides the public with a greater return on investment.

Why are there different affordable categories?

Affordable rental units are tailored to residents with less income, allowing them to save for down payments on the purchase of a house or condo, while also reducing overcrowded conditions, as less residents will need to share housing. The affordable for-sale units provide the opportunity of homeownership and are targeted to first-time homebuyers. Homeowners will be able to build equity through monthly mortgage payments that are not being spent on rent.

What are the restrictions placed on the affordable units?

Affordable units will have restrictive covenants encumbering the property. Rental units must remain affordable for at least 30 years, while for-sale units must remain affordable for at least five, 10, or 30 years, depending on the number of units provided. Affordable for-sale units must be owner occupied during the restriction period. Affordable units that are resold or rented to different households during the restriction period must stay within their targeted income category. After the restriction period ends, the homeowner can sell the for-sale unit at market value without restrictions.

How is the AHR different from the other ways of producing affordable housing?

The AHR is mandatory, offers incentives, and a streamlined process that does not necessarily require negotiations. If developers provide affordable housing through other options (e.g., a 201H project or unilateral agreement required as part of a zone change), they will be exempt from the AHR, as long as they provide, and restrict, at least an equivalent number of affordable units that would be required by the AHR.

Will people buy an affordable unit with restrictions?

The buyer of an affordable for-sale unit will receive a discounted price (versus market value) in exchange for the restriction that it remain affordable for a set number of years. The objective of the AHR is to provide a supply of affordable housing for residents, not to generate windfall profits to a select few. However, homeowners who need to upsize, or otherwise sell, their housing within the restriction period will still receive a return on investment because of the equity they invested through mortgage payments versus rent. Homeowners will also see some appreciation tied to the cost of living. Research has shown that this structure still allows most homeowners to move up the housing ladder, including moving into market rate housing.

Will people just choose market rate units, because of less restrictions, if affordable units end up being similar in price?

Everything equal, that would be a likely choice; however, that is not expected to be a common scenario given Oahu's expensive housing market. In most areas, the affordable units will be priced well below market rates, with the intention to enable first-time homebuyers to purchase a home when they simply cannot afford a market-rate home. Additionally, residents may choose to buy an affordable for-sale unit instead of renting since homeownership allows them to build equity. The AHR allows developers the flexibility to target a range of income groups that corresponds to the number of affordable units provided.

What will happen if developers cannot sell or rent the affordable units?

This situation is unlikely if the affordable units are priced well below market rates. But just in case, the AHR provides three 120-day marketing periods that allow the developer to target residents with higher incomes if qualified renters or buyers are not found within each period. However, the original price must remain the same.

Will it be difficult for developers of for-sale units, or property managers of rentals, to find qualified applicants?

City staff will put in place technology and processes to streamline eligibility determination of prequalified applicants. In addition, the City intends to partner with a third party to administer various components of the AHR, including homeowner/renter income verification and compliance monitoring.

Will banks finance developers and homebuyers of affordable housing?

Banks have financed affordable housing in Honolulu and in hundreds of other cities that have similar regulations. Most homebuyer mortgages are resold on the secondary market to agencies such as the Federal Housing Administration, Fannie Mae, and Freddie Mac. Federal regulations actually require and incentivize those agencies to encourage 30 years or longer affordability requirements. As more affordable projects are built here, banks will become more familiar with the local product and dynamics, which could make it easier for developers to obtain financing and better rates. In addition, the City can offer financing to developers and down payment assistance to qualifying homebuyers. Homebuyers will still have access to traditional financing options.

Are affordable housing development incentives available?

Yes, projects complying with the AHR are eligible for incentives to offset its impact (separately, qualifying rental housing projects under HRS 201H-36(a)(5) can also receive the incentives). Incentives are provided only for the affordable housing units. Most of the incentives expire in 2027.

What are the development incentives available?

The incentives available for complying with the AHR include one-time exemptions from property tax increases during construction, wastewater system facility charges (connection fees), plan review and building permit fees, and park dedication requirements for the affordable housing units. There are also on-going exemptions from real property taxes for affordable rental units.

How are the incentives applied?

In regards to the AHR, the project's affordable housing agreement needs to be executed for the applicant to receive the incentives. The DPP will apply the waivers of the plan review and building permit fee, park dedication requirement, and wastewater system facility charge during the building permit process. The Department of Budget and Fiscal Services (BFS) is responsible for the exemption of real property tax increases during construction, and the property tax exemption for affordable rental units—the timing of these exemptions will vary and need to be coordinated with the BFS.

For more information, visit www.honoluludpp.org
Information is subject to change.